

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | | |
|---|--------------|-----------------|--------------------------------------|--------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name | | County |
| Fiscal Year End | Opinion Date | | Date Audit Report Submitted to State | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | | |
|--|--------------------------|--|----------------|-----|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | | |
| Financial Statements | <input type="checkbox"/> | | | |
| The letter of Comments and Recommendations | <input type="checkbox"/> | | | |
| Other (Describe) | <input type="checkbox"/> | | | |
| Certified Public Accountant (Firm Name) | | Telephone Number | | |
| Street Address | | City | State | Zip |
| Authorizing CPA Signature  | Printed Name | | License Number | |

Meadow Brook Medical Care Facility

Financial Report
December 31, 2006

Meadow Brook Medical Care Facility

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Independent Auditor's Report

Antrim County Human Services Board
Meadow Brook Medical Care Facility

We have audited the accompanying balance sheet of Meadow Brook Medical Care Facility (a component unit of Antrim County) as of December 31, 2006 and 2005 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Meadow Brook Medical Care Facility at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 19, 2007

Meadow Brook Medical Care Facility

Balance Sheet

| | December 31, 2006 | December 31, 2005 |
|---|----------------------|----------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents (Note 2) | \$ 2,389,903 | \$ 1,329,411 |
| Resident accounts receivable (Note 1) | 790,818 | 797,662 |
| Taxes receivable (Note 1) | 1,110,321 | 1,055,109 |
| Other current assets | 110,253 | 54,789 |
| Total current assets | 4,401,295 | 3,236,971 |
| Assets Limited as to Use (Note 2) | 1,806,429 | 1,200,067 |
| Property and Equipment - Net (Note 3) | 2,084,950 | 2,219,316 |
| Total assets | \$ 8,292,674 | \$ 6,656,354 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Accounts payable | \$ 298,619 | \$ 176,142 |
| Funds held for residents | 12,327 | 10,577 |
| Accrued liabilities and other: | | |
| Accrued compensation and related liabilities | 258,061 | 215,062 |
| Accrued compensated absences | 217,688 | 217,688 |
| Other accrued liabilities | 50,973 | 39,549 |
| Total current liabilities | 837,668 | 659,018 |
| Net Assets | | |
| Invested in capital assets - Net of related debt | 2,084,950 | 2,219,316 |
| Restricted - Donor-restricted for specific operating activities | 423,084 | 404,567 |
| Unrestricted | 4,946,972 | 3,373,453 |
| Total net assets | 7,455,006 | 5,997,336 |
| Total liabilities and net assets | \$ 8,292,674 | \$ 6,656,354 |

Meadow Brook Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

| | Year Ended December 31 | |
|--|------------------------|---------------------|
| | 2006 | 2005 |
| Operating Revenue | | |
| Net service revenue | \$ 8,816,774 | \$ 8,074,037 |
| Quality assurance supplement (Note 1) | 1,194,645 | - |
| Other operating revenue | 82,882 | 79,336 |
| Proportionate share reimbursement (Note 1) | 168,241 | 206,174 |
| Total operating revenue | 10,262,542 | 8,359,547 |
| Operating Expenses | | |
| Salaries and wages | 5,387,127 | 4,979,893 |
| Employee benefits and payroll taxes | 1,422,207 | 1,466,839 |
| Operating supplies and expenses | 731,242 | 770,854 |
| Professional services and consultant fees | 455,286 | 634,724 |
| Repairs and maintenance | 196,278 | 81,423 |
| Utilities | 296,306 | 270,735 |
| Maintenance of effort (Note 1) | 128,748 | 114,562 |
| Depreciation | 310,621 | 339,826 |
| Equipment | 156,476 | 147,859 |
| Quality assurance assessment | 701,595 | - |
| Other | 286,168 | 214,902 |
| Total operating expenses | 10,072,054 | 9,021,617 |
| Operating Income (Loss) | 190,488 | (662,070) |
| Other Income (Loss) | | |
| Interest income | 143,648 | 67,773 |
| Gain (loss) on sale of property | - | (326,767) |
| Contributions | 9,552 | 9,589 |
| Interest earnings on restricted assets | 16,820 | 8,038 |
| Tax revenue | 1,097,162 | 1,035,975 |
| Total other income | 1,267,182 | 794,608 |
| Increase in Net Assets | 1,457,670 | 132,538 |
| Net Assets - Beginning of year | 5,997,336 | 5,864,798 |
| Net Assets - End of year | \$ 7,455,006 | \$ 5,997,336 |

Meadow Brook Medical Care Facility

Statement of Cash Flows

| | Year Ended | |
|--|----------------------|----------------------|
| | December 31, 2006 | December 31, 2005 |
| Cash Flows from Operating Activities | | |
| Cash received from residents and third-party payors | \$ 10,018,263 | \$ 7,938,539 |
| Cash paid to employees and suppliers | (9,638,247) | (8,664,192) |
| Cash received from proportionate share program | 168,241 | 172,179 |
| Other operating receipts | 82,882 | 79,336 |
| Net cash provided by (used in) operating activities | 631,139 | (474,138) |
| Cash Flows from Noncapital Financing Activities | | |
| Property taxes | 1,041,950 | 986,827 |
| Contributions received | 9,552 | 9,589 |
| Net cash provided by noncapital financing activities | 1,051,502 | 996,416 |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investments | 306,978 | 5,836 |
| Interest received | 160,468 | 75,811 |
| Net cash provided by investing activities | 467,446 | 81,647 |
| Cash Flows from Capital and Related Financing Activities | | |
| Purchase of property and equipment | (176,255) | (181,886) |
| Proceeds from sale of equipment | - | 2,000 |
| Net cash used in capital and related financing activities | (176,255) | (179,886) |
| Net Increase in Cash and Cash Equivalents | 1,973,832 | 424,039 |
| Cash and Cash Equivalents - Beginning of year | 2,222,500 | 1,798,461 |
| Cash and Cash Equivalents - End of year | \$ 4,196,332 | \$ 2,222,500 |
| Balance Sheet Classification of Cash and Cash Equivalents | | |
| Current assets | \$ 2,389,903 | \$ 1,329,411 |
| Assets limited as to use | 1,806,429 | 893,089 |
| Total cash and cash equivalents | \$ 4,196,332 | \$ 2,222,500 |

Meadow Brook Medical Care Facility

Statement of Cash Flows (Continued)

| | Year Ended | |
|---|----------------------|----------------------|
| | December 31, 2006 | December 31, 2005 |
| Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities | | |
| Operating income (loss) | \$ 190,488 | \$ (662,070) |
| Adjustments to reconcile operating income (loss) to net cash from operating activities: | | |
| Depreciation | 310,621 | 339,826 |
| Provision for bad debts | 14,506 | 10,304 |
| Change in assets and liabilities: | | |
| Resident accounts receivable | (7,662) | (145,802) |
| Other current assets | (55,464) | 9,602 |
| Accounts payable | 122,477 | 20,167 |
| Accrued expenses | 56,173 | (12,170) |
| Deferred revenue | - | (33,995) |
| Net cash provided by (used in) operating activities | <u>\$ 631,139</u> | <u>\$ (474,138)</u> |

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies

Meadow Brook Medical Care Facility (the "Facility") is a 113-bed, long-term care facility owned and operated by Antrim County (the "County"). The Facility is a component unit of the County. It is governed by the Antrim County Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less including amounts in assets limited as to use. A portion of these funds is held by Antrim County as detailed in Note 2.

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note I - Nature of Business and Significant Accounting Policies (Continued)

Accounts Receivable - Accounts receivable for residents, insurance companies, and governmental agencies are based on net charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical write-off rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Facility's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for doubtful accounts in the period they are determined to be uncollectible. The allowance for doubtful accounts was \$25,000 at December 31, 2006 and 2005.

Resident Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents. At December 31, 2006 and 2005, the funds totaled \$12,327 and \$10,577, respectively.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Facility. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by third-party payors and make up a significant portion of revenue earned during each year, as follows:

| | 2006 | 2005 |
|---------------------|------|------|
| Percent of revenue: | | |
| Medicaid | 79 % | 69 % |
| Medicare | 14 % | 21 % |

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for in-resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the Facility and is recorded in operating expenses. M.O.E. expense amounted to \$128,748 and \$114,562 for the years ended December 31, 2006 and 2005, respectively.

Tax Levy - During the year ended December 31, 2002, the residents of Antrim County approved a .75 mill levy for five years to support the operations of the Facility. During 2006, the tax levy was extended for another four years and approved for up to 1 mill, effective December 31, 2007. The Facility has recognized income of \$1,097,162 and \$1,035,975 for the years ended December 31, 2006 and 2005, respectively, related to this tax levy, with the unpaid portion reported as a receivable.

Proportionate Share Reimbursement Program - During the years ended December 31, 2006 and 2005, the Facility participated in this program sponsored by the State of Michigan. Revenue was taken into income in the year it was received.

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Quality Assurance Program - The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). The current QAAP program was approved by the federal government during 2006 and was made effective retroactive to October 1, 2005. During the year ended December 31, 2006, the Facility received Medicaid revenues related to QAAP totaling \$1,194,645, of which approximately \$234,000 related to the retroactive period of October 1, 2005 through December 31, 2005. During the year ended December 31, 2006, the Facility was assessed a "provider tax" totaling \$701,595, of which approximately \$138,000 related to the retroactive period of October 1, 2005 through December 31, 2005. This "provider tax" is based on the number of non-Medicare resident days of service provided during the year ended December 31, 2004. The State bills for the tax on a quarterly basis due on the fifth day following the end of a quarter. Therefore, approximately \$148,000 of provider tax was due and is included in accounts payable at December 31, 2006.

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

| | 2006 | | 2005 | |
|------------------|---------------------------------|--------------------------------|---------------------------------|--------------------------------|
| | Cash and Cash Equivalents | Assets Limited as to Use | Cash and Cash Equivalents | Assets Limited as to Use |
| Deposits: | | | | |
| County Treasurer | \$ 2,374,476 | \$ 873,797 | \$ 1,315,834 | \$ 843,471 |
| Bank | 15,427 | - | 13,577 | - |
| Investments | - | 932,632 | - | 356,596 |
| Total | <u>\$ 2,389,903</u> | <u>\$ 1,806,429</u> | <u>\$ 1,329,411</u> | <u>\$ 1,200,067</u> |

Cash - County Treasurer - These funds were under the control of the County Treasurer, who deposited these funds with a bank.

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 2 - Deposits and Investments (Continued)

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Cash - Bank - The Facility has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Facility's deposits and investment policies are in accordance with statutory authority.

The Facility's deposits and investments are subject to several types of risks including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility's funds as these funds are only a portion of the total County deposits.

Assets limited as to use are designated for the following:

| | 2006 | 2005 |
|--|---------------------|---------------------|
| By board for future capital improvements | \$ 985,284 | \$ 413,391 |
| By board for resident needs | 409,039 | 391,316 |
| By donors for specific purposes | 412,106 | 395,460 |
| Total | <u>\$ 1,806,429</u> | <u>\$ 1,200,167</u> |

Funds designated for replacement and improvement of property and equipment consist primarily of resources of the Facility that the board has designated for specific purposes.

Funds designated and donor-restricted for patient needs consist primarily of donated resources of the Facility that the board has designated and the donor has restricted for the specific purpose of patient needs.

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 3 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2006 are summarized below:

| | 2005 | Additions | Transfers | Retirements | 2006 | Depreciable Life - Years |
|--------------------------------|--------------|--------------|-----------|-------------|--------------|-----------------------------|
| Land and land improvements | \$ 203,364 | \$ 9,684 | \$ - | \$ - | \$ 213,048 | 5-20 |
| Building | 4,314,832 | 55,613 | - | - | 4,370,445 | 5-40 |
| Equipment | 1,017,260 | 91,793 | - | - | 1,109,053 | 3-20 |
| Vehicles | 117,445 | 9,275 | - | - | 126,720 | 4 |
| Construction in progress | - | 9,890 | - | - | 9,890 | |
| Total | 5,652,901 | 176,255 | - | - | 5,829,156 | |
| Less accumulated depreciation: | | | | | | |
| Land and land improvements | 85,997 | 12,904 | - | - | 98,901 | |
| Building | 2,772,825 | 189,196 | - | - | 2,962,021 | |
| Equipment | 493,193 | 96,762 | - | - | 589,955 | |
| Vehicles | 81,570 | 11,759 | - | - | 93,329 | |
| Total | 3,433,585 | 310,621 | - | - | 3,744,206 | |
| Net carrying amount | \$ 2,219,316 | \$ (134,366) | \$ - | \$ - | \$ 2,084,950 | |

Cost of capital assets and related depreciable lives for December 31, 2005 are summarized below:

| | 2004 | Additions | Transfers | Retirements | 2005 | Depreciable Life - Years |
|--------------------------------|--------------|--------------|-----------|--------------|--------------|-----------------------------|
| Land and land improvements | \$ 368,472 | \$ 46,463 | \$ - | \$ (211,571) | \$ 203,364 | 5-20 |
| Building | 4,358,232 | 80,920 | - | (124,320) | 4,314,832 | 5-40 |
| Equipment | 1,522,814 | 54,503 | - | (560,057) | 1,017,260 | 3-20 |
| Vehicles | 127,546 | - | - | (10,101) | 117,445 | 4 |
| Total | 6,377,064 | 181,886 | - | (906,049) | 5,652,901 | |
| Less accumulated depreciation: | | | | | | |
| Land and land improvements | 132,607 | 16,813 | - | (63,423) | 85,997 | |
| Building | 2,674,596 | 193,132 | - | (94,903) | 2,772,825 | |
| Equipment | 790,619 | 116,732 | - | (414,158) | 493,193 | |
| Vehicles | 73,219 | 13,149 | - | (4,798) | 81,570 | |
| Total | 3,671,041 | 339,826 | - | (577,282) | 3,433,585 | |
| Net carrying amount | \$ 2,706,023 | \$ (157,940) | \$ - | \$ (328,767) | \$ 2,219,316 | |

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 4 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for workers' compensation claims, and participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to general (including malpractice) and auto liability, auto physical damage, and property loss claims.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

Note 5 - Subsequent Event

In February 2007, the Facility entered into an agreement with a contractor for the purpose of replacing the boiler system. The total cost of the project is expected to be approximately \$454,000, which will be funded by board-designated assets.

Note 6 - Retirement Benefits

Plan Description - The Facility participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Facility through Antrim County. The Facility provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for MMERS. That report may be obtained by writing to MMERS at 447 North Canal Road, Lansing, Michigan 48917.

Funding Policy - Benefit provisions of MMERS, as well as employer and employee obligations to contribute, are outlined in Act No. 427 of the Public Acts of 1984, as amended. Pension expense consists of normal costs of the plan and amortization of prior-service cost over a 10-year period.

Annual Pension Cost - The Facility's contributions to the plan amounted to \$321,381, \$332,245, and \$320,613 in 2006, 2005, and 2004, respectively. The actuarially determined contribution requirements have been met based on actuarial valuations performed at December 31, 2005 and 2004.

Meadow Brook Medical Care Facility

Notes to Financial Statements December 31, 2006 and 2005

Note 6 - Retirement Benefits (Continued)

To show the progress of the Facility's status for each plan regarding certain key indicators, three-year trend information is presented below:

| | 2006 | 2005 | 2004 |
|---|------------|--------------|--------------|
| Annual pension cost (APC) | \$ 321,381 | \$ 332,245 | \$ 320,613 |
| Percent of APC contributed | 100 % | 100 % | 100 % |
| Actuarial value of assets | * | \$ 6,987,005 | \$ 6,485,129 |
| Actuarial accrued liability (entry age) | * | 8,616,212 | 8,069,803 |
| Unfunded actuarial accrued liability (UAAL) | * | 1,629,207 | 1,584,674 |
| Funded ratio | * | 81 % | 80 % |
| Covered payroll | * | \$ 4,406,541 | \$ 4,763,183 |
| UAAL as a percent of covered payroll | * | 37 % | 33 % |

* Information not available



March 13, 2007

To the Human Services Board
Meadow Brook Medical Care Facility
4543 South M-88 Hwy
Bellaire, MI 49615

In planning and performing our audit of the financial statements of Meadow Brook Medical Care Facility as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Cash Disbursements - Segregation of Duties

The Facility's cash is held by the County. For each check run, funds must be requested from the County and transferred to the Facility's imprest checking account. The Facility receives a summary from the County on a monthly basis, which summarizes the activity that was posted to the Facility's cash accounts. Journal entries are recorded for any activity that went directly to the County. The accounts payable clerk is responsible for entering new vendors, writing accounts payable checks, requesting funds from the County, taking the deposit to the bank, reconciling County accounts, and posting entries to adjust cash on the general ledger. The financial analyst reviews the reconciliation from the County for unusual activity; however, the reconciliation between the County and the general ledger and the entries posted to cash are not reviewed.

A strong system of internal control over the cash disbursements system requires the appropriate segregation of duties and, in an ideal system, employees that have the ability to post changes to cash would not have access to write checks without other safeguards in place to verify the changes. Based on the size of the Facility and limited availability to employees in order to allow for proper segregation of duties, we recommend improving other controls in this area. Some changes that could be considered include:

- Check registers should be reviewed for reasonableness of payments and authenticity of vendors.
- The reconciliation between the County Reconciliation Report and the general ledger should be reviewed.
- Journal entries posted to the cash account should be reviewed on a regular basis.
- The amounts requested from the County should be agreed to the amount of cash required for the check run.

Reconciliation of Accounts

A good system of internal accounting control includes timely reconciliation of all major general ledger accounts. Some of the following areas were noted as not being reconciled or monitored on a regular basis throughout the year. There were no material differences in the balances as compared to supporting documentation, however; the preciseness of general accounting procedures for these accounts were not evident.

- Accrued vacation
- Allowance for doubtful accounts
- Tax levy receivable

To ensure that all transactions are being properly recorded and that errors and irregularities are identified in a timely manner, the general ledger accounts should be reconciled to detail records on a monthly basis. If there are reconciling items, adjustments can be made so the accounting records will accurately reflect the Facility's financial condition and operating results. With monthly reconciliations in place, the financial statements distributed to management staff and the human services board will more accurately reflect monthly general ledger activity and balance sheet presentation. Timely reconciliations are very important and should be reinforced through management's review of the process.

During our audit, we also noted the following control deficiencies that are not considered to be significant deficiencies:

Payroll

The payroll clerk has access to override the hours and rates in the payroll system before running payroll. The payroll clerk has access to the payroll and human resources modules including inputting new employees, makes all adjustments to hours and rates, prints the checks, and writes the checks for the withholdings. There is currently no review of changes or overrides that have been posted to the system to verify they have been approved. The financial analyst reviews the payroll register for each pay period, which would likely detect errors of a consequential amount; however, we feel the following actions would improve internal control over payroll.

A strong system of internal control over changes to personnel files requires the appropriate segregation of duties and, in an ideal system, employees that have the ability to post changes to the personnel files would not have access to write payroll checks without other safeguards in place to verify the changes. We recommend the current process be reviewed and changes made to provide for more segregation of duties and controls in the process to change electronic personnel files.

Some changes that could be considered include:

- Create a report that would list changes to personnel files by employee number.
- Create a report that would list overrides used during the payroll process.
- Every item on the above reports should be reviewed to ensure there is an accompanying personnel change form, which verifies the information was input correctly and the change was approved.
- If possible, the payroll clerk could be restricted to "read only" access to the personnel files.

Census

The Facility has a daily log of patient days that is kept by the nursing staff and tracks days and discharges. Billing also creates a monthly log of patient days, based on what was billed. At the end of the month, the billing department runs a tape to sum the patient days per the daily logs and reconcile that to the days per the billing log. During the audit, we found that the reconciliation was not being performed on a consistent basis. In our selected sample, we found one month had a difference of one day between the daily logs and the billing log, which had not been caught because the reconciliation was not performed that month. The reconciliation is a good control to verify the proper number of days has been billed. We recommend procedures be put in place to ensure this process is performed each month with documented management approval.

The Facility also prepares an annual summary of the census, which tracks patient days by biller for each month. At the end of the year, the billing department creates a reconciliation for days that were retroactively billed to a different payor. These changes are not captured in the annual census. We recommend the changes be made to the annual census rather than creating a reconciliation. This ensures the census is providing data based on what actually occurred during the year.

This communication is intended solely for the information and use of management, the human services board, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, appearing to read 'M. Baker', with a long horizontal flourish extending to the right.

Michael A. Baker, CPA